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Auditing to build public confidence

AUDITOR - GENERAL
SOUTH AFRICA

**Report of the Auditor-General to the
Gauteng Provincial Legislature and the
council on the financial statements and
performance information financial
information of the Mogale City Local
Municipality for the year ended
30 June 2009**



Auditing to build public confidence

A U D I T O R - G E N E R A L
S O U T H A F R I C A

The reputation promise of the Auditor-General

“The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.”

The mission statement of the AGSA informs the content of the Public Audit Manual (PAM) by recognising that the audits conducted by the SAI of South Africa are unique due to its mandate. This mandate includes responsibilities in terms of laws or regulations that go beyond generally accepted practice of the auditor’s responsibilities in the audit of the financial statements.

These responsibilities include: consideration of issues such as public interest; accountability; probity; effective legislative oversight, in particular as concerns compliance with law, regulation or other authority; performance against pre-determined objectives; and economic efficient, and effective procurement of resources. The ultimate goal of the audits concerned is to strengthen the South African democracy.



AUDITOR - GENERAL
SOUTH AFRICA

Mr D Mashitisho
Municipal Manager
Mogale City Local Municipality
P O Box 94
Krugersdorp
1740

30 November 2009

Reference: TS 98 19611/2

Dear Mr Masihitisho

Report of the Auditor-General to the Gauteng Provincial Legislature and the council on the financial statements and performance information of Mogale City Local Municipality for the year ended 30 June 2009

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004 read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA).
2. In terms of section 121(3) and 127(2) of the MFMA, municipalities have to include the audit report in the municipality's annual report for tabling within seven months after the end of the financial year. **This report must please be referred to the Municipal Standing Committee on Public Accounts after tabling.**
3. Until tabled as required by section 127(2) the report is **not a public document** and should therefore be treated as **confidential**.
4. As your municipality will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following:
 - Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature Auditor-General in the handwriting of the auditor authorised to sign the audit report, as well as the place and date of signing and the AGSA logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo and the authorised signature will be made available to you in electronic format if required.
5. Ten (10) copies of the report must be submitted immediately after printing to the following address:

Auditor-General
Att: Parliamentary Manager
61 Central Street
Houghton

6. Please notify the Business Executive well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.
8. Kindly acknowledge receipt of this letter.

Yours sincerely



Twane Oberholzer
Senior Manager: Gauteng

Enquiries: Ockie Ludick
Telephone: (011) 703-7638
Fax: (011) 703-7699
Email: ockiel@agsa.co.za

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF MOGALE CITY LOCAL MUNICIPALITY FOR
THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mogale City Local Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages x to xx.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Recognised Accounting Practice and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Mogale City Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Mogale City Local Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with Generally Recognised Accounting Practice and in the manner required by the MFMA.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matters:

Significant uncertainties

9. With reference to note 32 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of the matter could not be determined, and no provision for any liability that may result was made in the financial statements.

Material underspending of capital budget

10. As disclosed in note 34 to the annual financial statements the municipality materially under spent on the capital budget by R56 082 481. Consequently, the municipality did not achieve certain of the required objectives in terms of the Service Delivery Budget Implementation Plan.

Material water inventory losses

11. As indicated in note 23 to the financial statements, the municipality incurred material water losses amounting to R38 393 319 (36 per cent).

Restatement of corresponding figures

12. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2008 were restated as a result of prior period errors discovered during the 30 June 2009 financial year.

Other matters

13. I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Local Government: Municipal Finance Management Act

15. Contrary to the requirements of section 127(2) of the MFMA, the 2007-08 annual report was not tabled in council within seven months after the end of the financial year.

Environmental Conservation Amendment Act

16. The municipality operated a landfill site without the necessary licence contrary to the requirements of section 20(1) of the Environmental Conservation Amendment Act, 2003 as amended by the Government Gazette No. 26023 published on 18 February 2004.

Governance framework

17. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Key governance responsibilities

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material		✓

No.	Matter	Y	N
	amendments resulting from the audit.		
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadline (section 126 of the MFMA)	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	✓	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	✓	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	✓	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	✓	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in 62(1)(c)(i) of the MFMA.	✓	
12.	Powers and duties assigned are in place, as set out in section 79 of the MFMA.	✓	

No.	Matter	Y	N
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	MPAC resolutions have been substantially implemented.	✓	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Mogale City Local Municipality against its mandate, predetermined objectives, outputs, indicators and targets. 68 of the MFMA.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

19. I reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

22. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

24. Contrary to the requirements of section 26(i) and 41(1)(b) of the MSA, the municipality's Integrated Development Plan (IDP) only included general key performance indicators and not key performance indicators for other specific objectives set by the municipality.
25. A comparison of performance targets for the previous financial year were not included as part of the annual performance report as required by section 46 of the MSA.

APPRECIATION

26. The assistance rendered by the staff of the Mogale City Local Municipality during the audit is sincerely appreciated.

Auditor-General

Johannesburg

30 November 2009



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SOUTH AFRICA

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